

Message Text

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PAGE 01 STATE 101465

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SUBJECT:SURETY BOND ALTERNATIVE-MINISTER GOSAIBI'S
POSITIVE RESPONSE

1. THERE HAVE BEEN SIGNIFICANT AND POSITIVE DEVELOPMENTS
RECENTLY ON THE USE OF SURETY BONDS AS AN ALTERNATIVE TO
BANK GUARANTEES. DURING MINISTER GOSAIBI'S PRESENTATION
AT AN APRIL 8 AMERICAN MANAGEMENT ASSOCIATION SEMINAR,
FIELDING HILGARTNER, OF THE EAST-WEST GROUP, RAISED THE
QUESTION OF THE SURETY BOND PROPOSAL. ALTHOUGH THE SURETY
BOND TEAM DID NOT MAKE PROPOSALS ON COST-PLUS CONTRACTS
DURING ITS FEBRUARY MEETINGS WITH THE SAG, DR. GOSAIBI
REPLIED THAT WITH REGARD TO THE U.S. CONTRACT PROPOSALS
THE "SAG HAS RULED OUT COST-PLUS CONTRACTING DUE TO THE
LACK OF TECHNICIANS TO MONITOR CONTRACTS, HOWEVER THE SAG
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PAGE 02 STATE 101465

BELIEVES THAT THE SURETY BOND PROPOSAL IS A GOOD ALTERNA-

TIVE TO BANK GUARANTEES." HE SAID THAT THE SURETY BOND ALTERNATIVE WOULD "BENEFIT SAUDI ARABIA BY HAVING MORE U.S. COMPANIES BIDDING ON SAG CONTRACTS." HE ALSO STATED THAT THE SAG WOULD BE ANNOUNCING A DECISION "WITHIN A FEW WEEKS." ALSO, HE COMMENTED THAT INDEPENDENT AGENCIES OF THE SAG SUCH AS HOSPITALS, UNIVERSITIES, AND ENTITIES SUCH AS THE SALINE WATER CONVERSION CORPORATION ARE NOT RESTRICTED TO UTILIZING

THE BANK GUARANTEE ARRANGEMENT.

2. HE ALSO CALLED UPON DEPUTY MINISTER MANSOOR AL-TURKI TO COMMENT BECAUSE THE MINISTRY OF FINANCE IS THE DECISION-MAKING AUTHORITY ON CONTRACTING ISSUES. DR. AL-TURKI REFERRED TO CONSULTATIONS WITH THE TEAM AND THAT THE "SAG WAS PLEASED WITH THE U.S. PRESENTATION." DR. AL-TURKI THEN CALLED ON CARL BAZARIAN OF TREASURY TO COMMENT ON THE CONSULTATIONS AND MOST RECENT DEVELOPMENTS. BAZARIAN GAVE A RUNDOWN OF THE PROPOSAL AND STATED THAT TREASURY IS PREPARING RESPONSES TO KEY CONCERNS EXPRESSED BY THE SAG ON THE FINANCIAL STRENGTH OF THE SURETY INDUSTRY AND THE WILLINGNESS OF THE SURETY INDUSTRY TO ESTABLISH SOME FORM OF REPRESENTATION IN SAUDI ARABIA.

3. THE U.S. INDUSTRY PARTICIPANTS AT THE SEMINAR SUPPORTED OUR INITIATIVES. NAJEEB HALABY, FORMER CHAIRMAN OF PAN AM, POINTED OUT THAT THE BANK GUARANTEE PROBLEM AFFECTED A&E FIRMS, AND EXPORTERS AS WELL AS THE CONSTRUCTION INDUSTRY. LATER ON IN THE SEMINAR, BAZARIAN GAVE A FORMAL PRESENTATION OF THE INDUSTRY/GOVERNMENT TEAM PROPOSAL WHICH WAS WELL RECEIVED BY THE U.S. PRIVATE SECTOR.

4. THE SAG REACTION TO THE SURETY BOND PROPOSAL HAS CHANGED FROM A POLITE "NO" TO SERIOUS CONSIDERATION AND POSSIBLE ACCEPTANCE OF OUR PROPOSAL. CONFIRMATION OF THIS POSITIVE REACTION WAS EXPRESSED BY DR. GOSAIBI IN RESPONSE TO A QUESTION POSED DURING HIS APRIL 8TH DINNER ADDRESS TO THE AMERICAN ARAB ASSOCIATION FOR COMMERCE AND INDUSTRY. HE STATED THAT "NEGOTIATIONS ARE PROCEEDING SMOOTHLY." HE ADDED THAT, "WE ARE VERY FLEXIBLE ON THIS. OUR PROBLEM IS THAT WE ARE A DEVELOPING COUNTRY AND HAVE LITTLE OF THE LIMITED OFFICIAL USE

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PAGE 03 STATE 101465

EXPERIENCE NEEDED TO SUPERVISE THE COMPLETION OF THESE CONSTRUCTION CONTRACTS," INDICATING THE REASON WHY THE GOVERNMENT REQUIRES PERFORMANCE GUARANTEES. (THIS STATEMENT WAS QUOTED IN THE APRIL 12 JOURNAL OF COMMERCE.)

5. ON APRIL 12TH, SECRETARY SIMON RAISED THIS ISSUE WITH GOSAIBI AND AL-TURKI DURING A MEETING AT TREASURY. MINISTER GOSAIBI INDICATED THAT HE IS AWAITING FURTHER

INFORMATION ON THE FINANCIAL STRENGTH OF THE SURETY INDUSTRY. (TREASURY HAS PROVIDED THE FINANCIAL REPORT ON THE SURETY INDUSTRY TO AL-TURKI WHO PROMISED TO DELIVER IT TO GOVERNOR QURAISHI. THE EMBASSY WILL RECEIVE A COPY OF THE FINANCIAL REPORT SHORTLY.) GOSAIBI ALSO EXPRESSED CONCERN OVER THE MECHANISM IN WHICH DISPUTES WOULD BE

SETTLED BEFORE A SURETY WOULD PAY THE PENAL SUM OF THE BOND. HE INDICATED THAT SURETY BONDS ARE A FEASIBLE ALTERNATIVE, HOWEVER THE MECHANISM OF SETTLING DISPUTES MUST BE RESOLVED BEFORE THE SAG IS WILLING TO REACH A DECISION. WE WILL BE MEETING WITH THE SURETY COMPANIES AND CONSTRUCTION INDUSTRY SHORTLY AND EXPECT A RESPONSE TO THIS CONCERN EXPRESSED BY GOSAIBI. SISCO

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